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extendicare ltd.

annual report 1975

financial highlights

extendicare ltd.

	1975	1974	1973	1972	1971
Revenues					
From Skilled Nursing Centres	**$22,893,296**	$17,740,024	$11,192,215	$ 5,677,280	$ 1,412,313
From Medical, Surgical, Pharmaceutical Supplies and Equipment	**22,679,600**	13,192,166			
From Diagnostic Centres and others	**3,386,475**	3,407,829	2,900,319	2,238,353	387,288
Gross Revenue	**48,959,371**	34,340,019	14,092,534	7,915,633	1,799,601
Net Earnings (Loss) before tax	**3,878,670**	2,613,931	1,782,788	376,889	(612,425)
Provision for Income Taxes	**1,978,117**	1,295,903	837,808	171,233	7,023
Net Earnings (Loss) before extraordinary items	**1,900,553**	1,318,028	944,980	205,656	(619,448)
Per share	**.96**	.80	.59	.13	(.39)
Net earnings after extraordinary items	**1,911,329**	1,559,090	1,165,980	396,630	(619,448)
Per share	**.96**	.94	.72	.25	(.39)
Total Assets	**45,980,175**	41,933,178	28,741,679	22,613,422	19,818,109
Available Nursing Centre beds at August 31	**3,912**	3,412	2,943	2,036	963

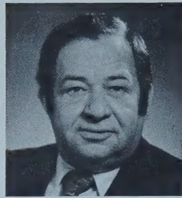
Note: The per share figures have been recalculated to reflect the 2 for 1 stock split of May 11, 1973.

chairman's message

anything in modus operandi to deal with inflation?

food, supply costs

after going to move rates up.



To our shareholders:

Your directors are pleased to report that 1975 has been a successful year for your company, not only in its financial results, but in its positive contribution to better health care for Canadians. In the past year, Extendicare has again demonstrated its ability to combine high standards of health care with effective financial performance, thus meeting our responsibility as the country's largest Canadian-owned public company in the health services field.

In an organization devoted to the care of people, the most important contribution is made by our staff members who are not only competent but concerned and dedicated. Extendicare recognizes the importance of training to improve professional skills and abilities and provides in-service training programs and makes available bursaries for advanced health care studies.

~~The effect of inflation was a~~ major problem during the year under review and continues to be a serious concern in the current year. Your company, however, was largely able to overcome these difficulties because of effective management and increases in rates by provincial governments concerned. Extendicare showed consolidated revenue of $48,959,371, compared with $34,340,019 for the previous 12-month period. Net earnings from continuing operations were $1,900,553, or 95.5 cents per share, up from fiscal 1974 net earnings of $1,318,028 or 79.6 cents per share.

During fiscal 1975, the Skilled Nursing Centre Division continued its expansion. The purchase of Parkside Nursing Home Ltd. in Regina ~~was completed,~~ adding 227 licensed beds. In September 1975, Extendicare (Quebec) Ltd., in which your company holds a 60 per cent interest, sold its Montreal nursing centre for cash and a note collaterally secured by a mortgage. In 1976, Extendicare's 60-bed centre in Haliburton, Ontario will be completed.

At the fiscal year-end, Extendicare operated a total of ~~22~~ nursing centres, ~~of which 19 were company-~~ owned and two managed under contract. ~~Your company also managed a chronic care hospital.~~ There were a total of 3,912 licensed beds in these extended care facilities and 1,160,179 patient days recorded. Community acceptance of the centres was reflected in consistently high occupancy rates.

owned

The company has disposed of all its x-ray centres and the Diagnostic Services Division operates clinical laboratories, all of which are located in Metropolitan Toronto. Our laboratories have increased the types of specialized services they offer and are continuing to improve the quality of testing and reporting.

Hartz Standard Ltd., the wholly-owned subsidiary which is Canada's largest medical and surgical supply company, is continuing its re-organization following its previous year's formation from the merger of two leading firms in the field. The company's performance improved during the year under review and we anticipate further improvement during fiscal 1976.

Recognition of your company's reputation and expertise in the health care field was also demonstrated during fiscal 1975 by requests for Extendicare to provide consulting services to public programs. Extendicare continues to provide management and development services on a contract basis and is currently involved in discussions with several potential clients.

While continuing to seek further opportunities to play a part in providing health care services in Canada, Extendicare is also considering an involvement in the health care system in the United States.

We are proud of our role in helping evolve the partnership between government and private enterprise for the provision of health services and we look forward to the future as this cooperation continues to result in quality health care.

The greatest challenge facing the Canadian health care delivery system during the coming year is the continuing rise in costs. We are confident that controlled growth and effective cost controls can be achieved through competent management, comprehensive public planning and optimum utilization of existing facilities and services.

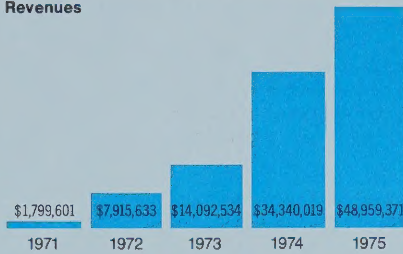
Harold Livergant

January 15, 1976

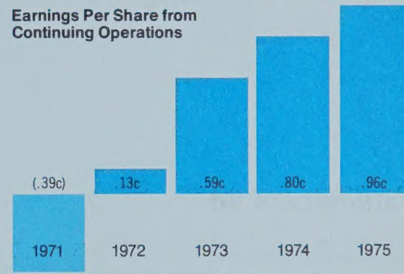
5-year financial and statistical highlights

extendicare ltd.

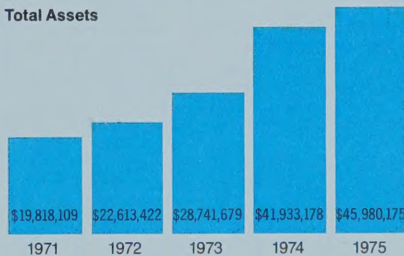
Revenues



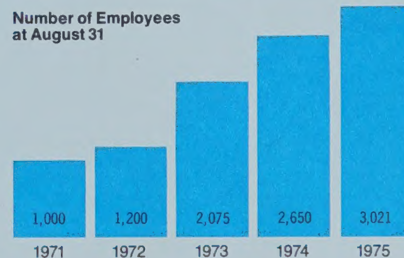
Earnings Per Share from Continuing Operations



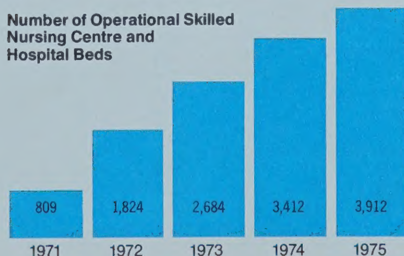
Total Assets



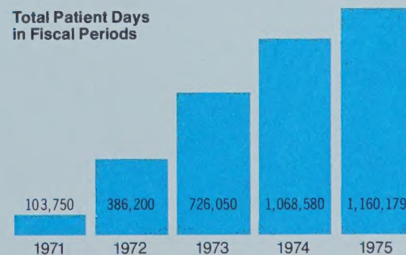
Number of Employees at August 31



Number of Operational Skilled Nursing Centre and Hospital Beds



Total Patient Days in Fiscal Periods



consolidated balance sheet

August 31, 1975
(with comparative amounts as at August 31, 1974)

extendicare ltd.

(Incorporated under the laws of Canada)
and subsidiary companies

Assets	**1975**	1974
Current		
Cash		$ 35,258
Accounts receivable	**$ 5,720,377**	5,560,906
Inventories (note 3)	**5,018,038**	4,524,491
Prepaid expenses and deposits	**438,653**	448,145
Trust funds held for residents	**217,420**	165,412
	11,394,488	10,734,212
Property and equipment (note 4)	**32,900,994**	28,746,819
Less accumulated depreciation	**3,107,219**	2,344,122
	29,793,775	26,402,697
Other		
Deferred operating costs, less amortization	**280,792**	358,836
Goodwill (note 5)	**3,947,935**	4,064,144
Other, at cost	**563,185**	373,289
	4,791,912	4,796,269
	$45,980,175	$41,933,178

Approved by the Board

Harold Livergant
Director

J MacKay
Director

Liabilities	1975	1974
Current		
Bank indebtedness (note 6)	**$ 3,538,018**	$ 4,548,351
Accounts payable and accrued liabilities	**3,069,098**	3,578,318
Principal due within one year on non-current liabilities	**2,258,504**	746,750
Income taxes payable	**1,414,807**	307,083
Trust funds held for residents	**217,420**	165,412
	10,497,847	9,345,914
Non-current liabilities (note 6)	**24,039,879**	23,563,638
Deferred income taxes	**2,184,009**	1,377,472
Shareholders' Equity		
Capital stock (note 7)		
Authorized 4,000,000 Common shares without nominal or par value 500,000 Preferred shares of the par value of $10 each		
Issued and fully paid 1,998,090 Common shares (1974 – 1,988,040 common shares)	**5,593,445**	5,533,383
Retained earnings (note 7)	**3,664,995**	2,112,771
	9,258,440	7,646,154
	$45,980,175	$41,933,178

Commitments, contingency and subsequent event (notes 10, 11 and 12)

Auditors' Report

To the Shareholders of Extendicare Ltd.

We have examined the consolidated balance sheet of Extendicare Ltd. and subsidiary companies as at August 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
October 20, 1975

Thorne Riddell & Co.
Chartered Accountants

consolidated statement of earnings

Year ended August 31, 1975
(with comparative amounts for 1974)

extendicare ltd.

and subsidiary companies

	1975	1974
Revenue		
Skilled nursing centres	**$22,893,296**	$17,740,024
Medical, surgical, pharmaceutical supplies and equipment	**22,679,600**	13,192,166
Diagnostic centres and other	**3,386,475**	3,407,829
	48,959,371	34,340,019
Costs and expenses		
Operating	**39,741,317**	26,592,730
Administrative and general	**2,062,501**	2,079,085
Interest on non-current liabilities	**2,279,112**	2,127,016
Depreciation	**877,730**	775,610
Amortization of deferred operating and other costs	**120,041**	151,647
	45,080,701	31,726,088
Earnings before income taxes and extraordinary items	**3,878,670**	2,613,931
Income taxes		
Current	**1,183,420**	370,461
Deferred	**794,697**	925,442
	1,978,117	1,295,903
Earnings before extraordinary items	**1,900,553**	1,318,028
Extraordinary items		
Gain on sale of properties and other assets, net, less income taxes of $32,840 (1974 – $123,090)	**10,776**	371,166
Costs incurred in connection with prospectus and for corporate reorganization net of income tax reductions of $128,504	–	(130,104)
	10,776	241,062
Net earnings for year	**$ 1,911,329**	$ 1,559,090
Net earnings per share (note 8)		
Before extraordinary items	**95.5c**	79.6c
After extraordinary items	**96.0c**	94.2c

consolidated statement of retained earnings

Year ended August 31,1975
(with comparative amounts for 1974)

	1975	1974
Balance at beginning of year	**$2,112,771**	$ 740,991
Net earnings for year	**1,911,329**	1,559,090
	4,024,100	2,300,081
Dividends	**359,105**	187,310
Balance at end of year	**$3,664,995**	$2,112,771

consolidated statement of changes in financial position

Year ended August 31, 1975
(with comparative amounts for 1974)

	1975	1974
Working capital derived from		
Operations	**$3,693,021**	$3,170,727
Proceeds from sale of properties and other assets, net of current income taxes	**610,485**	1,456,367
Non-current liabilities		
Arranged and assumed on acquisition of businesses	**1,317,036**	2,560,354
Other	**2,373,204**	4,419,503
Issue of shares		
For cash on exercise of stock options and warrants	**5,062**	290,925
On conversion of notes	**55,000**	767,625
On acquisition of businesses	–	1,347,640
	8,053,808	14,013,141
Working capital applied to		
Additions to property and equipment		
On acquisition of businesses	**2,903,500**	3,382,061
Other	**1,651,281**	1,960,377
Purchase of goodwill, 1975 being an adjustment of prior years' acquisitions	**160,687**	1,178,228
Dividends	**359,105**	187,310
Other items		
On acquisition of businesses	–	183,834
Other	**256,893**	581,896
Reduction of non-current liabilities	**3,213,999**	4,426,055
	8,545,465	11,899,761
Increase (decrease) in working capital position	**(491,657)**	2,113,380
Working capital (deficiency) at beginning of year	**1,388,298**	(725,082)
Working capital at end of year	**$ 896,641**	$1,388,298

notes to the consolidated financial statements

Year ended August 31, 1975

extendicare ltd.

and subsidiary companies

1. Summary of accounting policies

The major accounting policies of Extendicare Ltd. and subsidiary companies are set out below. These policies are in accordance with generally accepted accounting principles and have been consistently applied.

(a) Principles of consolidation
The consolidated financial statements include the accounts of all subsidiary companies the most substantial operating subsidiary being Hartz Standard Ltd. (100% owned).
Earnings from businesses purchased or sold are included from the dates of their purchase or to the dates of their sale.

(b) Inventories
Inventories have been valued at the lower of cost and net realizable value.
Cost is defined as laid down cost. Net realizable value is the selling price of the product less provision for normal selling costs.

(c) Property and equipment
Property and equipment is stated at historical cost. Depreciation is provided and is being charged to earnings based on the following estimated life expectancies:
Buildings – 40 years, straight line
Furniture and equipment – predominantly 15 years, straight line
Leasehold improvements – over the terms of the applicable leases

(d) Deferred operating costs
It is the policy of the Company to defer revenues and operating expenses of new nursing centres until such time as they are deemed operational. A nursing centre is deemed to be operational in the month during which revenues equal or exceed expenses or one year from the date of accepting the first resident, whichever first occurs. Net amounts deferred are then charged to earnings over a five year period on a straight line basis.

(e) Goodwill
Goodwill arises from the excess of purchase price paid for businesses over the fair value of assets acquired at the date of acquisition. It may arise either through the purchase of assets or shares of a business. Goodwill acquired prior to April 1, 1974 is carried in the accounts at cost without amortization. In accordance with recommendations of the Canadian Institute of Chartered Accountants, the Company will amortize to earnings in equal annual amounts goodwill acquired subsequent to that date over a period not exceeding 40 years.

(f) Income taxes
Income taxes charged in the consolidated statement of earnings represent both the portion currently payable and the portion which is deferred. The deferment of income taxes results from claiming depreciation and other items for tax purposes in amounts which exceed those recorded in the accounts.

2. Acquisitions and disposals

Effective June 1, 1975 the Company purchased the assets of an existing licensed nursing facility in Regina, Saskatchewan for cash and the assumption from the vendor of a first mortgage. Details of the acquisition are as follows:

Net assets acquired:	
Total assets at purchase price	$2,903,500
Total liabilities assumed	1,317,036
Cash consideration given	$1,586,464

In addition, during the year the Company sold substantially all of the assets of its pharmacy and x-ray divisions for cash.

3. Inventories

	1975	1974
Resale merchandise	**$4,454,801**	$3,923,500
Supplies	**563,237**	600,991
	$5,018,038	$4,524,491

4. Property and equipment

	1975		1974	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Deposits on properties	**$ 44,500**	**–**	$ 144,819	–
Buildings	**24,489,728**	**$1,949,167**	20,710,429	$1,445,156
Furniture and equipment	**4,601,411**	**1,074,116**	4,009,946	815,543
Leasehold improvements	**317,153**	**83,936**	352,127	83,423
Construction in progress	**376,302**	**–**	904,799	–
	29,829,094	**3,107,219**	26,122,120	2,344,122
Land	**3,071,900**	**–**	2,624,699	–
	$32,900,994	**$3,107,219**	$28,746,819	$2,344,122

5. Goodwill

	1975	1974
Purchased goodwill (purchase of assets)	**$2,544,840**	$2,688,328
Excess of purchase price of shares of certain subsidiary companies over net book value of assets acquired (purchase of shares)	**1,403,095**	1,375,816
	$3,947,935	$4,064,144

6. Non-current liabilities

	1975	1974
The Company:		
First mortgages, 7⅜% to 11¼% maturing through to 2007	**$18,170,235**	$15,737,938
Second mortgages, 11% to 12% maturing through to 1978	**602,697**	659,614
Convertible notes, 5½% to 7% maturing through to 1980	**738,700**	799,606
8½% Sinking fund debentures, due 1984	**2,690,000**	2,701,000
Bank demand term loan* at 1% above prime	**944,000**	1,115,032
Promissory notes, 7% to 9% maturing through to 1981	**955,608**	1,015,555
Subsidiaries:		
First mortgages, 7% to 10⅝% maturing through to 2002	**1,859,474**	1,887,877
Second mortgages, 8% to 9% maturing through to 1976	**118,075**	152,512
Notes payable, 10% maturing 1976	**184,440**	206,100
Notes payable to minority shareholders, non-interest bearing	**35,154**	35,154
	26,298,383	24,310,388
Less principal due within one year and included in current liabilities	**2,258,504**	746,750
	$24,039,879	23,563,638

*All bank indebtedness is secured by assignment of accounts receivable, shares in subsidiary companies, and a debenture creating a floating charge on assets. The weighted average annual interest rate of all non-current liabilities is approximately 9.7%.

Principal payments on non-current liabilities due within the next five fiscal years are as follows:

1976	$2,258,504
1977	4,017,000
1978	2,468,700
1979	962,600
1980	4,047,300

During the year 6½% convertible notes totalling $86,400 were issued as consideration for additional goodwill generated for the benefit of the Company as a result of certain conditions being met in one of the laboratory facilities acquired by the Company. Conversion privileges and rights relating to non-current liabilities are set out in note 7.

7. Shareholders' equity

During the year 1,250 common shares were issued for $5,062 cash on exercise of stock options and 8,800 common shares were issued on conversion of $55,000 convertible notes. Restrictions under the trust indenture securing the 8½% sinking fund debentures prohibit the payment of dividends which would reduce shareholders' equity, as defined in the trust indenture, below $3,000,000.

The Company has 379,338 common shares reserved for conversion in connection with issued or to be issued convertible notes and for issue upon exercise of outstanding warrants at prices ranging from $5.00 to $7.50 per common share to May 15, 1979.

In addition 100,000 common shares were originally reserved for issuance to officers and key employees under the Company's Employee Stock Option Plan, of which 8,050 shares have been exercised to August 31, 1975. At August 31, 1975 53,500 shares were optioned to officers and 25,750 shares to other employees at prices ranging from $3.75 to $7.00 with varying expiry dates to April 1980.

8. Earnings per common share

Earnings per common share have been calculated on the weighted average number of shares outstanding during the year.

Fully diluted earnings per share are 83.0c before extraordinary items and 83.4c after extraordinary items for the year ended August 31, 1975. Fully diluted earnings per share have been calculated on the basis of the following assumptions:

(a) the conversion at the beginning of the year of convertible notes issued or to be issued resulting in an increase of earnings of $24,019 after tax; and

(b) the exercise at the beginning of the year of all rights and options with imputed earnings, after tax, at 5¼% amounting to $108,348 on cash received which would have been used to retire second mortgages and all of its bank indebtedness.

9. Other statutory information

	1975	1974
Number of directors	**9**	9
Aggregate remuneration of directors as directors	**$ 10,500**	$ 7,000
Number of officers (including one resigned during the year)	**11**	9
Aggregate remuneration of officers as officers	**$361,414**	$233,408
Number of officers who were also directors	**3**	2

10. Long term leases

The Company has lease commitments with terms expiring up to 1998, exclusive of renewals. Maximum rentals to be charged to earnings are as follows for each of the periods shown:

For the year:	1976	$ 869,300
	1977	862,400
	1978	823,200
	1979	774,100
	1980	686,500
For the following:		
	1981 to 1985	3,124,100
	1986 to 1990	2,539,600
	1991 to 1995	1,419,500
	1996 to 1998	669,600
		$11,768,300

During the year ended August 31, 1975 rent expense of $876,200 has been charged to operations.

11. Contingent liability

As a result of its purchase of particular diagnostic facilities in 1971 the Company assumed a contingent liability of up to $150,000 under a mortgage indemnity agreement and up to $30,770 under a bank guarantee. The Company has since reduced its liability under the mortgage indemnity agreement to $100,000 by lending $55,000 to a joint venture consisting of 19 physicians on the security of a second mortgage of a medical building owned by them.

12. Subsequent event

Effective September 21, 1975 a subsidiary sold substantially all of the assets of its Montreal nursing facility. Consideration received from the sale was cash, a second mortgage secured by land and buildings plus a floating charge on the furniture and equipment of the facility, plus the assumption by the purchaser of an existing first mortgage. A gain on the disposal of the assets will be reflected in the financial statements for the year ended August 31, 1976.

extendicare ltd.

one yonge street, toronto, ontario M5E 1E5

Shareholders are invited to attend the company's Annual Meeting at 10 a.m., February 9, 1976, in the Library Room of the Royal York Hotel, Toronto.

Board of Directors

Harold L. Livergant
Chairman of the Board and Chief Executive Officer

John MacKay
President

James A. Bradshaw
Solicitor; Campbell, Godfrey & Lewtas

H. Hoyle Campbell, M.D.
Surgeon

William E. Hewitt
Vice-President, Finance, Allpak Products Limited

Derril G. McLeod
Solicitor; Pedersen, Norman, McLeod & Todd

J. Russell Scott, M.D.
Physician

Martin D. Shyba
Chairman of the Board Hartz Standard Ltd.

Jean-Paul Tessier
President, BGL Construction Ltd.

Officers

Harold L. Livergant
Chairman of the Board

John MacKay
President

Donald J. Dal Bianco
Senior Vice-President, Finance

James E. English
Senior Vice-President, Operations

Thomas A. McEwan
Senior Vice-President; President, Hartz Standard Ltd.

Jacob Birbrager
Vice-President, Development

Richard A. Gardner
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J. Wesley Carter
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F.R.C.P.(C), M.B., M.R.C.(PATH)

Transfer Agents for Common Shares

Montreal Trust Company

Trustee for Debentures

Canada Permanent Trust Company

Auditors

Thorne Riddell & Co.

Legal Counsel

Campbell, Godfrey & Lewtas

Bankers

The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce

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